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Date: 25 June 2007

Dear Colleague

**Open consultation letter: Income Adjusting Event for the Beaully-Denny Public Inquiry**

**Background**

Transmission Investment for Renewable Generation (TIRG) provides funding to connect a large volume of renewable generation that was not forecast at the time the relevant price controls were set for the transmission licensees. The TIRG mechanism resulted in explicit expenditure allowances in the transmission licences for a range of projects. However, it was also recognised that the inherently uncertain nature of the volume, displacement and nature of the new connections, various release valves would need to be inserted into the transmission licences to provide a mechanism to correct funding allowances if they proved inappropriate.

The transmission licences set out the works on each of the transmission owner's systems that fall under the TIRG mechanism. The largest project in TIRG, the upgrade of an existing 132kV transmission line to 400kV between Beaully in the north of Scotland and Denny in central Scotland, is primarily within Scottish Hydro Electricity Transmission Ltd's (SHTL) transmission area, although Scottish Power Transmission Ltd (SPTL) is responsible for building the southern part of the line in its transmission area. The Beaully-Denny line has recently entered the public inquiry stage following objections to the line from statutory consultees in the planning process. Given its primary role in designing Beaully-Denny, SHTL has been called to defend the project in the public inquiry proceedings. SHTL considers that substantial costs have been incurred as a result of its participation in the public inquiry process, and that it should be entitled to recoup this expenditure under the provisions of the transmission licence.

Special condition J3 (Restriction on transmission charges: Transmission Investment for Renewable Generation) of SHTL's transmission licence sets out income adjusting event provisions, whereby the licensee can give notice to the Authority that it considers an event has occurred which requires a change to the expenditure provisions in the licence. Following consideration of the notice and supporting documentation, the Authority has the ability to direct a change to the licence for the amount requested by the licensee, or a different amount, at the discretion of the Authority.

On 30 January 2007, SHETL gave notice to the Authority that it considers that an income adjusting event has occurred in relation to the Beaulieu-Denny public inquiry. On 14 May 2007, SHETL wrote to the Authority again setting out updated information on the costs associated with the public inquiry. SHETL considers that additional pre-construction costs of £2.102 million have already been incurred in 2006/07 and forecast costs of £4.888 million are expected to be incurred in 2007/08, on the assumption the public inquiry concludes in early 2008. SHETL therefore considers that the licence should be changed to reflect these values. Specifically, SHETL is requesting that the TIRGIncAd<sub>t</sub> term provided for in special condition J3 (Restriction on transmission charges: Transmission Investment for Renewable Generation) should take the values for the years  $t=p+1$  and  $t=p+2$  (2006/07 and 2007/08) of £2.102 million and £4.888 million respectively. This equates to £1.973 million in 2004/05 prices and £4.452 million in 2004/05 prices assuming 3 per cent inflation for 2006/07.

In practice this would mean that TIRGIncAd terms would be inserted into SHETL's transmission licence for the relevant two pre-construction years. A summary of the components of the requested expenditure allowance can be found in appendix 1 and 2.

### **Consultation questions**

The purpose of this informal consultation letter is to obtain initial industry and consumer views on the proposed income adjusting event for the Beaulieu-Denny public inquiry. It is open for respondents to comment on any of the issues raised in this letter, but in particular we consider the following issues merit consideration:

- Do you agree with SHETL's proposals for permitting expenditure to account for the Beaulieu-Denny public inquiry costs, in accordance with the provisions of its licence conditions?
  - Specifically do you agree with proposals for the costs already incurred for 2006/07 and the forecast costs for 2007/08?
- Are there any factors or evidence other than that provided by SHETL which you think Ofgem should take into account in deciding whether to modify the licence to allow additional expenditure?

### **Next steps**

We would like to hear the views of any interested parties regarding the issues raised in this letter. Responses should be made on or before 23 July 2007 to:

David Hunt  
Senior Manager – Electricity Transmission Policy  
Office of Gas and Electricity Markets  
9 Millbank  
London SW1P 3GE

or by email to [david.hunt@ofgem.gov.uk](mailto:david.hunt@ofgem.gov.uk).

Following closure of this open letter consultation, and careful consideration of respondents' views, we intend to consult formally on this issue in August 2007.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'D. Hunt', with a stylized flourish at the end.

David Hunt  
Senior Manager – Electricity Transmission Policy

## **Appendix 1 – table of anticipated Beaulay-Denny Public Inquiry Income Adjusting Event costs – nominal prices**

The table below indicates SHETL's view of the actual costs that have been incurred in 2006/07, as well as its current view of the costs it will incur in 2007/08. All items are in £m in nominal prices.

<b>Item</b>	<b>2006/07 Actual (£m)</b>	<b>2007/08 Forecast (£m)</b>
Environmental consultancy costs	0.878	1.250
Technical consultancy costs	0.488	0.720
Legal costs	0.354	1.786
Internal costs	0.265	0.450
Other costs	0.281	0.910
Re-charge to third parties	-0.165	-0.229
Total	2.102	4.888

## **Appendix 2 – table of anticipated Beaully-Denny Public Inquiry Income Adjusting Event costs – 2004/05 prices**

The table below indicates SHETL's view of the actual costs that have been incurred in 2006/07, as well as its current view of the costs it will incur in 2007/08. All items are in £m in 2004/05 prices, using actual RPI until 2006/07 and 3 per cent RPI for 2007/08<sup>1</sup>.

<b>Item</b>	<b>2006/07 Actual (£m)</b>	<b>2007/08 Forecast (£m)</b>
Environmental consultancy costs	0.824	1.139
Technical consultancy costs	0.458	0.656
Legal costs	0.332	1.627
Internal costs	0.249	0.410
Other costs	0.264	0.829
Re-charge to third parties	-0.155	-0.209
Total	1.973	4.452

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<sup>1</sup> Please note that in order to get from 2006/07 prices to 2004/05 prices, the values to three decimal points are deflated by 0.939. In order to get from 2007/08 prices to 2004/05 prices, the values to three decimal points are deflated by 0.911.